

Economic Impact Analysis: Saukville to Kiel Railroad Abandonment

Executive Summary

In June 2004, the Surface Transportation Board received an application from Wisconsin Central Limited (WCL) to abandon a 37-mile rail segment between Saukville and Kiel in Wisconsin. According to the filing notice, six communities would be impacted by the abandonment – Fredonia, Random Lake, Adell, Waldo, Plymouth, and Elkhart Lake. The reason for rail abandonment was the non-profitability and low volume of freight traffic along the rail line (199 carloads in 2002 and 206 carloads in 2003). In addition, current track conditions are poor and suffer from years of neglect due to lack of maintenance and periodic upgrades.

In two public meetings, convened by the Wisconsin Department of Transportation (WisDOT), and the Surface Transportation Board, businesses, local officials, state representatives, and citizens expressed concerns about the loss of rail service to this area of the state. State representatives in the region therefore requested WisDOT to conduct an economic impact analysis on the proposed abandonment.

WisDOT approached the study from several perspectives. The agency conducted interviews with the seven businesses currently using the rail service to determine the impact the abandonment will have on their operations. Interviews were also conducted with local officials to determine if there have been recent inquiries by businesses with a need for rail service that were interested in locating in communities on the rail corridor. Development plans were evaluated to determine whether communities were planning new industrial parks that include access to rail. Interviews were also conducted with other businesses that had expressed an interest in using rail in the future.

To gain a realistic perspective of the frequency manufacturing plants were locating in this area of the state, WisDOT used data from the Department of Commerce to identify manufacturers that located or expanded within 5-miles of the rail corridor from 1990 to 2001. Using the findings from this analysis and other information on the number of businesses that had matching standard industrial codes with identical industries that have a tendency to use rail, a case study was constructed to illustrate the economic impact of two new businesses locating along the corridor within the next five years. The following are the findings of the study.

- The regional economy, consisting of Ozaukee, Sheboygan, and Manitowoc counties mirrors the state economy through its strength and dependency on the manufacturing sector. Communities along the proposed rail abandonment corridor experienced an above average population growth during the past 10 years resulting in a demand for more housing, retail, and personal services.
- Businesses currently using rail service along the proposed abandoned rail corridor reported that their shipping costs would rise by \$210,690 per year if they had to divert their freight to another mode of transportation (trucks).

- Businesses currently using rail are responsible for 145 direct year around jobs with an estimate annual payroll of \$5.8 million. Total personal income impact of these businesses including the direct and other multiplier jobs (indirect and induce jobs) that are created as a result of these businesses was \$9.7 million.
- In interviews of eight businesses identified as potential rail users, three area businesses expressed an interest in using rail services in the future. These businesses were responsible for about 1,460 direct jobs and generated \$63 million in personal income. A total of 4,170 direct, indirect, and induced jobs are generated by these three businesses, resulting in an impact of \$133 million in personal income. These three businesses alone are responsible for \$993 million in output.
- Out of seven interviewed communities, four communities indicated that they have at least conceptual plans for future industrial parks with access to rail.
- Seven communities were asked if they have been contacted by businesses interested in locating in the community and had expressed a need for rail service. During the past 2 years, 10 inquiries have been made by businesses interested in rail service. According to the local officials, none of these prospects materialized because of the uncertainty of the future of the rail line.
- In a previous study, research revealed that 86 new and expanded manufacturing plants located within 5-miles of the rail corridor from 1990-2001. It is likely that several area manufacturers in the future could have a need for rail service. For illustration purposes, WisDOT simulated the economic impact of two hypothetical new businesses (lumber and food processing) locating along the rail corridor within the next five years. If the food processor and lumber business each created 60 jobs, it would have a direct impact of \$4.9 million in personal income. The 120 jobs direct jobs in both businesses would also generate another 186 indirect and 65 induced jobs with a total personal income of \$11.2 million. The economic activity, or output, of these two businesses would be \$73 million.
- Based on data from WisDOT's Transportation Economic Assistance (TEA) program, a new business with a need for rail service would more likely be in one of the following industrial sectors: farm products, lumber, pulp and paper, non-metallic minerals, rubber and plastics, and food processing.

There was strong agreement among the interviewed businesses and local officials that the proposed rail abandonment could diminish the business recruitment and retention efforts of municipalities and local economic development organizations. Rail service was viewed as an important economic recruitment tool, even though the tonnage and number of railcars currently moved along the rail line is minimal. In order to generate interest in more businesses to utilize rail service, local officials and businesses expressed the need for new investment and rehabilitation along the entire rail corridor.